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Q4 2012 Investor Call

February 22, 2013

Safe Harbor Statement

This presentation contains “forward-looking statements” within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Such statements give our expectations or forecasts of future events; they do not relate strictly to historical or current facts. Forward-looking statements can be identified by words such as “anticipates,” “estimates,” “expects,” “projects,” “intends,” “plans,” “believes,” “will,” “target,” “seeks,” “forecast” and similar expressions and references to guidance. In particular, these include statements relating to future actions, business plans, objects and prospects, and future operating or financial performance. Forward-looking statements are based on our current expectations and assumptions regarding our business, the economy and other future conditions. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could differ materially from past results and those anticipated, estimated or projected. We caution you therefore against relying on any of these forward-looking statements.

Factors that could cause or contribute to such differences include, but are not limited to: regulatory actions, budgetary pressures and political influences that could affect the procurement practices and operations of healthcare organizations and agencies, reducing demand for our services; our ability to continue to secure contracts through the competitive bidding process and any related protests and to accurately predict the cost and time to complete such contracts; our ability to retain clients or the loss of one or more major clients; client dissatisfaction or early termination of contracts triggering significant costs or liabilities; the development by competitors of new or superior products or services; the emergence of new competitors, or the development by our clients of in-house capacity to perform the services we offer; all the risks inherent in the development, introduction, and implementation of new products and services; our ability to manage our growth and its demands on our resources and infrastructure; our ability to successfully integrate our acquisitions; our compliance with the covenants and obligations under the terms of our credit facility and our ability to generate sufficient cash to cover our interest and principal payments thereunder; variations in our results of operations; negative results of government reviews, audits or investigations to verify our compliance with contracts and applicable laws and regulations; changing conditions in the healthcare industry which could simplify the payment process and reduce the need for and price of our services; our failure to comply with laws and regulations governing health data or to protect such data from theft and misuse; and, our ability to maintain effective information systems and protect them from damage or interruption. A further description of these and other risks, uncertainties, and related matters can be found in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011, which is available at www.hms.com under the “Investor Relations” tab. Any forward-looking statements made by us in this presentation speak only as of the date of this presentation. Factors or events that could cause actual results to differ may emerge from time to time and it is not possible for us to predict all of them. We undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by law.

Use of Non-GAAP Measures

This presentation contains non-GAAP measures. A reconciliation of these measures to GAAP measures is set forth in our press release issued on February 22, 2013, which is available under the Investor Relations Tab on the Company’s website (www.hms.com).

Discussion Outline

- Financial Performance
- New Business
- 2012 Challenges/2013 Impact
- Industry Updates
- Strategic Outlook



Q4 2012 Consolidated Statements of Income – Summary

(\$ in thousands except per share amounts)

	Three months ended December 31,		Percentage Change
	2012	2011	
Revenue	<u>\$ 133,096</u>	<u>\$ 99,667</u>	34%
Total cost of services	84,557	62,224	36%
Selling, general & administrative expenses	<u>11,377</u>	<u>17,218</u>	-34%
Total operating expenses	<u>95,934</u>	<u>79,442</u>	21%
Operating income	37,162	20,225	84%
Net interest and other income/(expense)	<u>(4,042)</u>	<u>(607)</u>	
Income before income taxes	33,120	19,618	69%
Income taxes	<u>13,134</u>	<u>8,487</u>	55%
Net income	<u>\$ 19,986</u>	<u>\$ 11,131</u>	80%
Diluted income per share data:			
Net income per diluted share	<u>\$ 0.23</u>	<u>\$ 0.13</u>	77%
Weighted average common shares, diluted	<u>88,596</u>	<u>87,386</u>	

FY 2012 Consolidated Statements of Income - Summary

(\$ in thousands except per share amounts)

	Year ended December 31,		Percentage Change
	2012	2011	
Revenue	<u>\$ 473,696</u>	<u>\$ 363,826</u>	30%
Total cost of services	318,910	233,805	36%
Selling, general & administrative expenses	<u>55,274</u>	<u>49,150</u>	12%
Total operating expenses	<u>374,184</u>	<u>282,955</u>	32%
Operating income	99,512	80,871	23%
Net interest and other income/(expense)	<u>(16,167)</u>	<u>92</u>	
Income before income taxes	83,345	80,963	3%
Income taxes	<u>32,829</u>	<u>33,178</u>	-1%
Net income	<u>\$ 50,516</u>	<u>\$ 47,785</u>	6%
Diluted income per share data:			
Net income per diluted share	<u>\$ 0.57</u>	<u>\$ 0.55</u>	4%
Weighted average common shares, diluted	<u>88,365</u>	<u>87,444</u>	

Condensed Balance Sheets

(\$ in thousands)

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Current assets:		
Cash and cash equivalents	\$ 135,227	\$ 97,003
Accounts receivable, net of allowance of \$7,815 and \$4,161 at December 31, 2012 and December 31, 2011, respectively	153,014	119,885
Prepaid expenses and other current assets	<u>17,936</u>	<u>20,700</u>
Total current assets	306,177	237,588
Property and equipment, net	129,327	127,177
Other non-current assets	<u>490,548</u>	<u>504,566</u>
Total assets	<u>\$ 926,052</u>	<u>\$ 869,331</u>
Current liabilities:		
Accounts payable, accrued expenses and other liabilities	\$ 40,867	\$ 40,546
Other current liabilities	<u>59,773</u>	<u>27,180</u>
Total current liabilities	100,640	67,726
Long-term liabilities:		
Contingent payables	428	-
Other liabilities	<u>362,110</u>	<u>410,368</u>
Total liabilities	<u>463,178</u>	<u>478,094</u>
Total shareholders' equity	<u>\$ 462,874</u>	<u>\$ 391,237</u>
Total liabilities and shareholders' equity	<u>\$ 926,052</u>	<u>\$ 869,331</u>

Condensed Statements of Cash Flow

(\$ in thousands)

	Year ended December 31,	
	<u>2012</u>	<u>2011</u>
Net income	\$ 50,516	\$ 47,785
Net cash provided by operating activities	83,039	56,729
Net cash used in investing activities	(38,074)	(375,721)
Net cash provided by financing activities	<u>(6,741)</u>	<u>321,159</u>
Net increase in cash and cash equivalents	38,224	2,167
Cash and cash equivalents at beginning of year	<u>97,003</u>	<u>94,836</u>
Cash and cash equivalents at end of year	<u>\$ 135,227</u>	<u>\$ 97,003</u>

State Government Sales

New

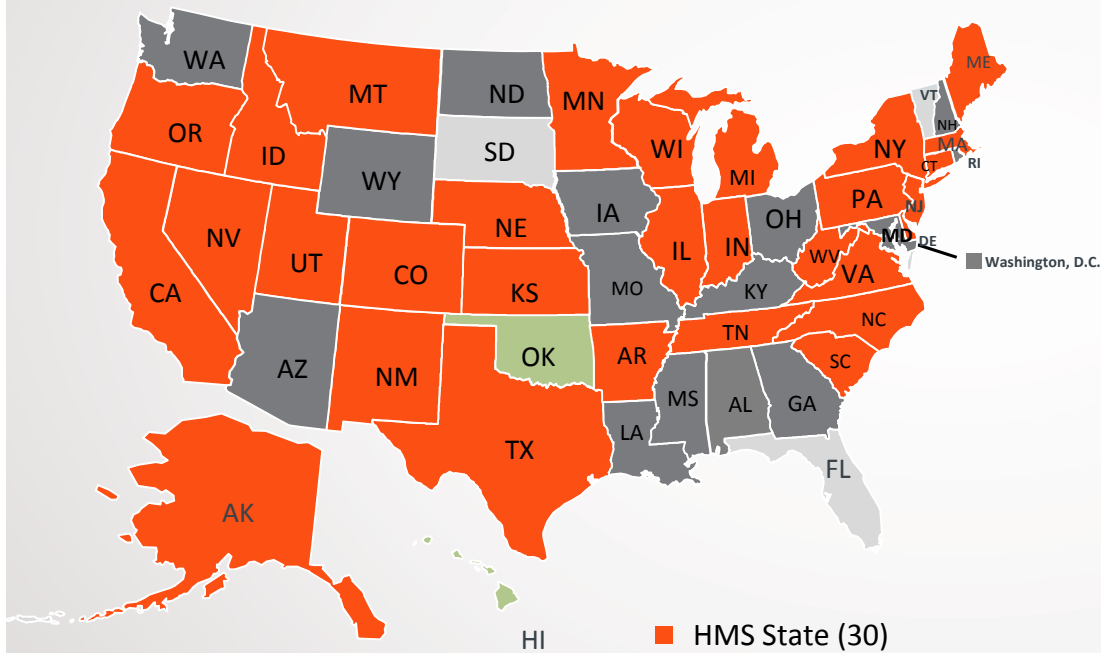
- California Public Employees' Retirement System
- Georgia TPL (reprocurement)
- Illinois Medicaid RAC
- Rhode Island TPL (reprocurement)

Expansions

- Arkansas TPL
- Oklahoma TPL
- North Carolina Medicaid RAC



Medicaid RAC Status



- HMS State (30)
- Non-HMS State (16)
- Waiver State (3)
- No Selection (2)

States with Executed Contracts	27
States with Contracts Pending	3
States Implemented	11
States in Implementation	16

Managed Care Sales

New

- Blue Cross/Blue Shield of Massachusetts
- Health Plan of San Mateo (CA)
- UPMC Health Plan (PA)
- WellPoint

Expansions

- CareSource (KY)
- Community Health Choice, Harris County (TX)
- Fidelis (NY)
- Meridian Health Plan (NH)
- Presbyterian Health Plan (NM)
- Scott & White Health Plan (TX)
- United Healthcare Evercare (TX)



2012 Challenge

Near-Term Outlook

Medicaid
COB

5010/D.O
HIPAA transactions

Resolution expected in first half of 2013
Less than \$5M remaining in backlog

Slow Medicaid
expenditure growth

Expenditure growth improving in 2013
Significant growth in 2014

Migration to
managed care

Migration of duals increases spend per member
Potential increase in scope of contracts

Medicare
COB

Award under protest

Decision pending
> \$300M contract potential
Strengthens relationship with CMS

Medicaid
RAC

Delays in procurement
awards and
implementation

Contracts in 30 states
Implementations underway
Revenue ramp-up in second half 2013 and in 2014

Industry Updates

- Medicare RAC
- Medicaid Expansion
- Health Insurance Exchanges

Strategic Outlook

- Programs growing in expenditures and membership
- National leader: Medicaid/Medicare COB; Medicaid/Medicare RAC
- Early success selling to large commercial market
- Emerging eligibility verification opportunities



